

# INDUSTRY UPDATE

Biweekly Period Ending January 26, 2002

## Phoenix Metro Area

### ***Manufacturing***

Just when one might think the worst was over, **Motorola** announced that **more cost cutting and layoffs** will be necessary in **2002**. The Schaumburg, Ill.-based electronics manufacturer, which cut nearly one-third of its worldwide workforce in 2001 (about 50,000 jobs), said an **undetermined number of jobs** will be **axed this year**, saving \$200 million and hopefully bringing the company back to profitability by 3<sup>rd</sup> quarter 2002. While not giving specific details, Motorola said most of the **new layoffs** would **affect nonmanufacturing positions**, with an announcement coming by the middle of the year. Over the past year, Motorola has eliminated several thousand jobs in the Valley — either by early retirement or layoffs — with additional manufacturing positions expected to be cut over the next two years when a semiconductor plant in Mesa closes (see Aug. 25, 2001, *Industry Update*).

A \$700 million manufacturer of products for the automobile, defense, aerospace, and construction industries is **moving** its **corporate headquarters** from **Cincinnati to Phoenix**. **Eagle-Picher Holdings Inc.**, which is nearly 160 years old, employs about 5,300 (including about 60 corporate workers) at operations in a half-dozen countries. Eagle-Picher, which recently hired a former Valley Honeywell official as chief executive, is coming off a tumultuous year in which it was involved in several high-profile lawsuits; a CBS television report said that failed batteries (made by Eagle-Picher) may have contributed to bombs going off target in Afghanistan; and the company reported a loss in the fiscal year ending in No-

vember of \$54 million.

Spurred by \$47 million in new venture capital (for a total of \$98 million) and an ability to attract top engineers, **Tempe-based Primarion Corp.** is likely to experience “**hypergrowth**” over the **next several years**, much like the exponential growth in bandwidth its integrated circuits provide for high-end microprocessors (e.g., Pentium 4). Founded by four former Intel employees in 1999, Primarion’s products could be used in 100 million processors a year within the next several years, according to an article in *The (Phoenix) Business Journal*.

### ***Transportation, Communications, and Public Utilities***

About **75 America West pilots** received notice that they will be **called back** to work by **March**, one week after the Tempe-based air carrier received approval from the federal government for \$380 million in loan guarantees. With about 10,000 Valley workers, America West is one of the Phoenix-area’s largest employers. America West said the pilot recall was due to higher traffic loads and an anticipated increase in travel during the spring. About **180 pilots** and **2,000 America West workers overall** were **laid off** in **October**, due to the sharp fall-off in travel following the Sept. 11<sup>th</sup> terrorist attacks. The federal loan guarantees were key to America West receiving approval of a \$429 million loan and \$600 million in financial concessions from its vendors and aircraft lessors. The head of the airline, however, said it’s unlikely the air carrier will make money before 2004, according to a story in the *East Valley Tribune*.

As part of a consolidation plan, about **25 supervisory jobs** and an **unspecified number of hourly positions** will be **eliminated** at

an **AT&T service center** in **east Mesa**. The cuts are part of a planned elimination of 5,000 jobs nationwide announced in early January. The service center takes orders from businesses seeking local AT&T phone service.

### ***Finance, Insurance, and Real Estate***

Seattle-based **Washington Mutual** expects to **more than double** the number of its **16 branches** in the Phoenix metro area over the **next several years**, with an eye toward capping out at 80 branches down the line. The bank plans to **open five** of the 16 new locations during **February and March**. **Employment**, currently around 250, should **double** when the **third phase of expansion is complete**. Eight locations opened in March 2001, followed by another eight later in the year. Washington Mutual distinguishes itself from typical banks by using a system called Occasio, which uses computerized kiosks with customer-service personnel standing by, instead of traditional teller windows and loan officers.

### ***Trade***

Watch out Walgreen's and Osco, **CVS** is coming. The nation's largest drug store chain, CVS is currently **building three Valley stores** — one each in Mesa, Gilbert, and Chandler — with **several others** planned for **later this year**. With more than 4,100 stores, almost all east of the Mississippi River, the Rhode Island-based pharmacy said it plans to contain its Arizona expansion to the Phoenix metro area for the near term. The acronym CVS stands for Consumer Value Store, the original name of the company when it opened its first store in Lowell, Mass., in 1963.

Almost a year after developer Steve Ellman packed up his plans for a hockey arena and moved them to Glendale, plans are finally shaping up for the **former site of Los Arcos Mall** in **south Scottsdale**. Ellman, who still owns the 42-acre site on the southeast corner of McDowell and Scottsdale roads, revealed in late January that he plans to **build a power center** that will include **three "big-box" stores** — a super Wal-Mart, Sam's Club,

and Lowe's home furnishings outlet. Like the previous plans for a hockey arena and retail shopping complex, the Scottsdale City Council must still give its approval. But with likely fewer complaints from neighbors about potential traffic problems and the city council's concerns about Ellman's finances, this project should easily be approved, several media outlets suggested.

A **consolidation** of **PETsMART's online store**, based in Pasadena, Calif., into its overall operations will lead to an **increase in employment** at its **Phoenix corporate headquarters**. The closing of Petsmart.com's California-based operation will eliminate 100 jobs there, but many of those workers will have a chance to relocate to the Phoenix area, it was reported in *The Business Journal*. As brought out in the last *Industry Update*, PETsMART Inc. has seen its operations revive in the last 12 months, with its stock increasing 300 percent and 3<sup>rd</sup> quarter 2001 over-the-year sales up by 10 percent.

### ***Services***

Two health systems, **Banner and Vanguard**, are **looking west** (west Valley, that is) for **future growth** opportunities. With six Valley hospitals and 37 percent of the Phoenix-area hospital market, **Banner** is seeking to continue its dominance by **opening a 120-bed facility** at **Agua Fria Freeway** (Loop 101) and **Thomas Road**, followed by a **Gilbert hospital** two years later. Nashville-based **Vanguard**, which has the second largest share of the Valley market (about 13 percent), is **planning hospitals in Goodyear** and the **north and northwest Valley**.

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## **Tucson Metro Area**

### ***Manufacturing***

Adding workers while most businesses were laying off employees during the past year's recession, **Raytheon Missile Systems** announced it is **laying off 400 workers** (mainly engineers) due to the loss of funding for three developmental defense projects, the

company said. The Tucson area's largest private employer, Raytheon's missile division has seen its Tucson workforce grow from 4,000 to 10,400 since 1992 as it has consolidated (from other locations) and expanded operations in the southern Arizona city. (Prior to a 1997 merger with Hughes Electronics, the Tucson division was called Hughes Missile Systems.) Raytheon's news is especially difficult for the Tucson aerospace sector, **coming on top of 750 job cuts** recently announced by **Bombardier Aerospace** (see Jan. 12, 2002, *Industry Update*). Despite the layoffs, the *Arizona Daily Star* reported that a Raytheon official said its Tucson operations are financially strong, verified by 4<sup>th</sup> quarter 2001 results showing defense sales and operating income up 10 percent and 7 percent, respectively, over the year.

### **Mining**

Australian-based **BHP Billiton Ltd.** will **all but close down operations** at its **San Manuel mine** in **Marana** by September. San Manuel's copper smelter, however, will remain open. In June 1999, BHP laid off 2,200 workers at the nearly 60-year-old mine due to declining copper prices and since then has been unsuccessful in its attempt to sell the mine. BHP will **keep 36 of its remaining 174 employees** for environmental and security purposes. Earlier in January, 90 employees at ASARCO's Mission Mine in Green Valley were let go due to faltering copper prices (see Dec. 1, 2001, *Industry Update*). And since 1996, copper mining employment has fallen nearly 40 percent statewide — from 11,200 in '96 to 6,900 in 2001.

### **Transportation, Communications, and Public Utilities**

Contract call-center operator **Anfi Inc.** **laid off 90 people** from its workforce of 1,100 due to the slowdown in the economy. Despite the negative news, the **company is upbeat about its future** in Tucson, where it has two separate operations (333 E. Wetmore and 7810 E. Escalante roads). Anfi, which handles

customer-service and accounts-payable calls for businesses such as Sprint and Verizon Wireless, **expects** it will be **adding more employees by summer**.

### **Trade**

**Construction** will **begin in June** on a 139,000-square-foot **Home Depot** on **East Broadway near Pantano Road**, with an **opening set for spring 2003**. The new store will replace an existing location at 7150 E. Broadway, which will close and transfer its 225 workers to the new Home Depot. Additional employees may also be hired, a Home Depot official said.

### **Services**

England-based **Misys** officially **took over Sunquest Information Systems**, a Tucson-based medical-care software developer, in late January. Misys is expected to **keep Sunquest's 760 employees** (three-fourths of the company's workforce) and likely expand operations, the company told the *Tucson Citizen*. With two previous acquisitions, Misys now provides information-technology products to three areas of health care — physicians, hospitals, and home care — and is among the top five health-care IT businesses, the *Tucson Citizen* reported.

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### **Balance of State**

#### **Manufacturing**

If approved by the federal government, between **75 and 100 local jobs** will be **created** by a **cement manufacturing facility** planned on land in the Prescott National Forest near Paulden. **Stirling Bridge Cement Co.** said the 350,000 annual tons of cement it would produce at the 160-acre plant would be used for commercial and residential buildings in this fast growing part of the state. If a report by the U.S. Forest Service, due out in February, is favorable, work on the plant would begin in August.

## ***Transportation, Communications, and Public Utilities***

**Salt River Project** plans to join two other utilities in building a **300-mile gas pipeline** between Las Vegas, Nev., and La Paz County to fuel numerous natural gas-fired electric-generation plants coming on-line in the state over the next several years. In conjunction with the project, a 10-billion-cubic-foot **gas-storage facility** will be built **30 miles north of Kingman**, which will permanently **employ about 25 workers**. SRP, Sempra Energy Resources of San Diego, and Allegheny Energy Supply Co. of Hagerstown, Md., are currently seeking inquiries from potential users of the **Desert Crossing Gas Storage and Transportation System**. If enough users come forward, construction could begin in 18 months, with completion of the \$700 million system expected by 2005.

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### **Statewide**

#### ***Trade***

It's **too early to tell** what **effects**, if any, **Kmart's** recent **bankruptcy** announcement and plans to close poorly performing stores will have **in Arizona**. The Troy, Michigan-based company has **36 stores statewide** employing about **4,000 workers**. In *The Arizona Republic*, it was reported that financial analysts expect about a third of Kmart's 2,114 stores will be shuttered. According to its web site, the company plans to reduce spending by \$350 million and expects to emerge from bankruptcy protection in 2003.

Another nationwide chain, Corpus Christi, Texas-based **Whataburger Inc.** plans to **re-launch its 38 Arizona restaurants** after entering bankruptcy protection in September. In Tucson, most of Whataburger's seven locations have been remodeled. The 50-year-old chain is the eighth largest "burger flipper" in the country with annual sales of \$600 million.

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## ***INDUSTRY UPDATE***

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